

## REPORT FOLLOW-UP

**AGENCY: DEPARTMENT OF ENVIRONMENTAL QUALITY – CLEAN WATER STATE REVOLVING FUND**

On April 3, 2006, the Legislative Services Office released an audit for the DEQ – Clean Water State Revolving Fund (CWSRF) for fiscal year 2005. The CWSRF was contacted on June 22, 2006, and this follow-up report addresses how CWSRF has responded to the three findings and recommendations contained in that report.

**STATUS OF RECOMMENDATIONS:**

**FINDING #1** – The accounting had errors and was not completed in a timely manner. The prior audit noted several accounting errors and financial statements that were not completed in a timely manner. This was again found to be the case. For example:

1. Net assets reported on the Statement of Net Assets do not match net assets reported on the Statement of Revenues, Expenses, and Changes in Nets Assets. The difference was \$12 million.
2. Loan disbursements of \$900,000 were incorrectly made from another fund instead of from the CWSRF. The Department was unaware of these incorrect disbursements.
3. Interest was miscalculated and incorrect allocations of borrower repayments between principal and interest were made.

These errors can lead to over- or underpayment of loans, incorrect management decisions, non-compliance with loan agreements, and misappropriation of assets. We believe these errors occurred because only one employee completed the accounting work with little oversight. Also, the lack of a fully integrated and automated accounting system may contribute to errors.

**We recommended that more than one person be trained to complete the CWSRF's accounting and that management provide timely oversight and reviews. The Department should also generate accounting reports in a timely manner, complete timely reconciliations, and consider a new accounting system.**

**AUDIT FOLLOW-UP** – The Department has cross-trained employees to complete the accounting. Management also ensures that reconciliations are completed and that the accounting is correct. The Department is also in the final stages of implementing a new accounting system. **STATUS - CLOSED**

**FINDING #2** – The accounting structure was unnecessarily cumbersome and inefficient. The prior audit noted that the Department used three separate funds to account for the CWSRF's activities, when one would suffice. The Department was still using three funds. One fund records loan repayments; a second fund, which has a large negative cash balance, records disbursements; and a third fund accounts for miscellaneous transactions, such as recording interest earnings. Additionally, the Department unnecessarily used separate program codes for different types of loan transactions, leading to multiple codes for each loan. This process leads to less timely and efficient reconciliations, more difficult accounting, and control weaknesses.

**We recommended that the Department eliminate unnecessary funds and program codes.**

**AUDIT FOLLOW-UP** – The Department now uses one fund and has eliminated many program codes.  
**STATUS – CLOSED**

**FINDING #3 – Documentation to support transactions was not always adequate.** As in the last audit, the Department could not provide adequate documentation for some transactions. Approval from management and borrowers for loan re-amortizations was not documented, and explanations for why repayment schedules did not agree with loan closing documents were not documented. Also, there was no documentation to explain why some payments were not recorded in accordance with the loan agreements.

**We recommended that the Department document all loan decisions that affect loans or transactions related to them. Documentation should include management and borrower approval for loan re-amortizations, and explanations as to why amounts on the repayment schedules do not agree with loan closing documents. Also, the loan agreements should explain how non-scheduled payments are to be recorded against the loan.**

**AUDIT FOLLOW-UP –** The Department is studying these issues and has yet to determine needed processes and policies to ensure that all transactions are documented and consistently applied. **STATUS – IN PROCESS**